

Commission Act ("FTC Act"), 15 U.S.C. § 53(b), to secure preliminary and permanent injunctive relief and other equitable relief, including rescission, restitution, and disgorgement against defendants for their violations of Section 5(a) of the FTC Act, 15 U.S.C. § 45(a).

JURISDICTION AND VENUE

2. This Court has subject matter jurisdiction over plaintiff's claim pursuant to 28 U.S.C. §§ 1331, 1337(a), and 1345, and 15 U.S.C. §§ 45(a) and 53(b).

3. Venue in this District is proper under 28 U.S.C. §§ 1391(b) and (c), and 15 U.S.C. § 53(b).

THE PARTIES

4. Plaintiff Commission is an independent agency of the United States Government created by the FTC Act, 15 U.S.C. §§ 41-58. The Commission enforces the FTC Act, which prohibits deceptive acts or practices in or affecting commerce. The Commission may initiate federal district court proceedings to enjoin violations of the FTC Act and to secure such equitable relief as is appropriate in each case, including redress for injured consumers. 15 U.S.C. § 53(b).

5. Defendant National Idea Network, Inc. ("National"), which does business as The Concept Network ("Concept"), is a Pennsylvania corporation with two business addresses in the Western District of Pennsylvania: 2277 Canterbury Offices, Route 422 West, Indiana, Pennsylvania 15701, and 1000 Brooktree Road, Suite 310, Wexford, Pennsylvania 15090. Concept transacts business in the Western District of Pennsylvania.

6. Concept offers for sale research reports, the processing of patents, and services

related to attracting potential licensors, marketers, and manufacturers (“invention-promotion services”) to consumers located throughout the United States and Canada.

7. Defendant Harry E. Scharf, III, is Chief Executive Officer and President of National. Individually, or in active concert or participation with others, he formulates, directs, controls, or participates in the acts or practices of Concept, including those alleged herein. He resides and transacts business in the Western District of Pennsylvania.

8. Defendant Wayne R. Obitz is Executive Vice President of National and Vice President, Marketing Division, of Concept. Individually, or in active concert or participation with others, he formulates, directs, controls, or participates in the acts or practices of Concept, including those alleged herein. He resides and transacts business in the Western District of Pennsylvania.

9. Defendant Robert J. Zarko is Senior Marketing Representative, Commercial Division, at Concept. Individually, or in active concert or participation with others, he directs, controls, formulates, or participates in the acts or practices of Concept, including those alleged herein. He resides and transacts business in the Western District of Pennsylvania.

DEFENDANTS' COURSE OF CONDUCT

10. Since approximately September 1989, and continuing thereafter, defendants have maintained a substantial course of trade in offering and selling research, patenting, and invention-promotion services to individual inventors who want to profit from the sale of their ideas for inventions.

11. Defendants have solicited the sale of patent and invention-promotion services

through the use of, among other things, advertisements on television, in newspapers and in magazines, including but not limited to Entrepreneur, Inc. and Success, correspondence and contracts sent through the United States mail and telephone sales presentations.

12. Defendants' advertisements invite consumers to call an 800 number. When consumers call the 800 number, they are asked to give their name, address and telephone number and are sent a brochure.

13. In the brochure, defendants state that Concept is an international marketing company with important contacts and an extensive network of product manufacturers and distributors that provides patenting, market research, graphic and licensing services.

14. Several days after receiving the brochure, a sales representative for Concept typically telephones the consumer. After soliciting information about the consumer's invention, the sales representative typically invites the consumer to send in a form describing the invention and represents that Concept will review it to determine whether it is patentable and marketable.

15. In the overwhelming majority of cases, the sales representative then calls the consumer back and tells the consumer that the idea has passed the scrutiny of the reviewers and that the idea has commercial potential. Only in rare cases, such as when the idea is absurd or when the company believes it may have a conflict of interest with another client's idea is the consumer's idea rejected. The sales representative then attempts to sell the consumer a product research report and patent search costing approximately \$575.

16. The product research report is a document about seventy pages long consisting primarily of boilerplate language. The product research report purportedly evaluates the marketability of an idea or product. In virtually all cases, the product research report concludes

that the product is patentable and has tremendous market potential.

17. After the consumer has received the product research report, the sales representative typically calls the consumer again and attempts to persuade the consumer to enter into a promotion agreement authorizing Concept to promote a customer's idea for an invention, for a service fee of as much as \$12,000. The promotion agreement provides that, in exchange for this service fee, Concept will promote the idea or product to industry in an effort to secure a licensing, marketing or manufacturing agreement for the customer. The promotion agreement provides that Concept will refund the fee if the product is successfully licensed, and that Concept will then receive a percentage of any resulting royalties.

18. Consumers who utilize Concept's services virtually never recoup their investment. Of the hundreds of sales made by Concept, only a handful have resulted in a licensing agreement, and of those actually licensed, only a few have resulted in consumers making an appreciable amount of money.

19. Defendants' course of trade is in or affecting commerce, within the meaning of Section 4 of the FTC Act, 15 U.S.C. § 44.

VIOLATIONS OF SECTION 5 OF THE FTC ACT

20. Defendants represent, expressly or by implication, that:

(a) consumers who buy defendants' invention-promotion services stand a reasonably good chance of realizing financial gain; and

(b) defendants have successfully marketed the invention ideas of many of their customers.

21. In truth and in fact:

(a) consumers who buy defendants' invention-promotion services do not stand a reasonably good chance of realizing financial gain, and in fact, virtually all of defendants' customers lose their entire investment; and

(b) defendants have not successfully marketed the invention ideas of many of their customers, and in fact, virtually none of defendants' customers have ever earned anything from royalties or actual sales of their inventions.

22. Therefore, the representations set forth in Paragraph 20 are false and misleading and constitute deceptive acts or practices in violation of Section 5(a) of the FTC Act, 15 U.S.C. § 45(a).

CONSUMER INJURY

23. Defendants' violations of Section 5(a) of the FTC Act have injured and will continue to injure consumers. Because of defendants' misrepresentations of material facts consumers have made and will continue to make investments that are likely to cause substantial financial injury, absent injunctive relief.

THIS COURT'S POWER TO GRANT RELIEF

24. Section 13(b) of the FTC Act, 15 U.S.C. § 53(b), empowers this Court to issue injunctive and other relief against violations of the FTC Act and, in the exercise of its equitable jurisdiction, to award redress to remedy the injury to consumers, to order disgorgement of monies resulting from defendants' unlawful acts or practices and to order other ancillary equitable relief.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff requests that this Court:

(1) Award the Commission all temporary and preliminary injunctive and ancillary relief that may be necessary to avert the likelihood of consumer injury during the pendency of this action, and to preserve the possibility of effective final relief, including, but not limited to, temporary and preliminary injunctions and an order freezing each defendant's assets;

(2) Enjoin defendants permanently from violating Section 5(a) of the FTC Act, including committing such violations in connection with the advertising, offering for sale or other promotion of invention promotion services;

(3) Award such relief as the Court finds necessary to redress injury to consumers resulting from defendants' violations of Section 5(a) of the FTC Act, including, but not limited to, the rescission of contracts or refund of money, and the disgorgement of unlawfully obtained monies; and

(4) Award plaintiff the cost of bringing this action, as well as such other and additional

equitable relief as the Court may determine to be just and proper.

Respectfully submitted,

STEPHEN CALKINS
General Counsel

DATED: _____

RUSSELL W. DAMTOFT
EVAN SIEGEL
KAREN D. DODGE
Federal Trade Commission
55 E. Monroe Street, Ste. 1860
Chicago, IL 60603
(312) 353-8156

ALBERT W. SCHOLLAERT
Assistant United States Attorney
PA BAR # 23629
633 United States Post Office
& Courthouse
Pittsburgh, PA 15219
(412) 644-6600
Attorneys for Plaintiff